AMERICAN VANADIUM CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

Management's Comments on Unaudited Financial Statements

The accompanying unaudited condensed consolidated interim financial statements of American Vanadium Corp. (the "Company") for the nine months ended September 30, 2012 have been prepared by management and approved by the Board of Directors of the Company. These financial statements have not been reviewed by the Company's external auditors.

AMERICAN VANADIUM CORP.
CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS (UNAUDITED)
IN CANADIAN DOLLARS

	September 30	December 31
	2012	2011
	$	$
ASSETS		
Current assets		
Cash	**1,324,603**	4,245,438
Amounts receivable	**41,871**	128,656
Income tax receivable	**100,835**	267,971
Prepaid expenses	**108,721**	101,695
Deferred engineering management expense and deposit (Note 5)	**1,575,415**	1,079,390
Total current assets	**3,151,445**	5,823,150
Equipment (Note 4)	**51,449**	49,455
Reclamation deposit	**143,602**	85,720
Mineral properties (Note 5)	**1,729,512**	1,535,943
Total assets	**5,076,008**	7,494,268
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	**676,341**	784,883
Total liabilities	**676,341**	784,883
Shareholders' equity		
Share capital (Note 6)	**15,937,340**	14,058,111
Contributed surplus	**2,830,315**	2,339,450
Deficit	**(14,367,988)**	(9,688,176)
Total shareholders' equity	**4,399,667**	6,709,385
Total liabilities and shareholders' equity	**5,076,008**	7,494,268

Basis of presentation and continuance of operations (Note 2)

Commitments and contingencies (Note 12)

On behalf of the Board:

Signed: "William Radvak" Director

Signed: "Brian E. Bayley" Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

AMERICAN VANADIUM CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)
IN CANADIAN DOLLARS

	Three Months Ended September 30	Three Months Ended August 31	**Nine Months Ended September 30**	Nine Months Ended August 31
	2012	2011	**2012**	2011
	$	$	**$**	$
		Note 2		Note 2
Exploration and evaluation expenses (Note 5)	**1,435,879**	726,009	**2,578,755**	3,133,526
General and administrative expenses:				
Salaries and benefits	**174,653**	80,422	**691,505**	272,714
Stock-based compensation	**41,620**	162,962	**317,048**	775,081
Consulting (Note 7)	**131,644**	57,743	**376,223**	96,739
Travel	**42,034**	10,725	**199,344**	63,897
Office facilities and administrative services (Note 7)	**47,642**	43,000	**142,923**	113,458
Audit and legal	**35,763**	20,240	**86,316**	68,310
Transfer agent, listing and filing fees	**8,218**	13,655	**61,868**	45,829
Investor relations and shareholder information	**24,215**	145,341	**104,387**	443,556
Office and sundry	**26,524**	58,118	**70,623**	85,477
Amortization	**5,532**	4,217	**15,066**	10,074
Foreign exchange loss (gain)	**43,638**	(17,573)	**44,101**	73,913
Interest income	**(1,814)**	(7,193)	**(8,347)**	(11,767)
Loss before income taxes	**2,015,548**	1,297,666	**4,679,812**	5,170,807
Current income tax recovery	**-**	-	**-**	(175,306)
Net comprehensive loss	**2,015,548**	1,297,666	**4,679,812**	4,995,501
Basic and diluted loss per share (Note 11)	**0.07**	0.05	**0.17**	0.22

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

AMERICAN VANADIUM CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
IN CANADIAN DOLLARS

	Share Capital	Contributed Surplus	Deficit	Total
	$	$	$	$
Balance, December 1, 2010 (Note 2)	6,162,761	816,581	(3,032,141)	3,947,201
Exercise of warrants	479,999	-	-	479,999
Exercise of stock options	315,796	(132,197)	-	183,599
Private placements, net of share issuance costs	6,921,767	651,526	-	7,573,293
Stock-based compensation	-	775,084	-	775,084
Shares issued for water rights (Note 5)	67,500	-	-	67,500
Net comprehensive loss for the period	-	-	(4,995,501)	(4,995,501)
Balance, August 31, 2011 (Note 2)	13,947,823	2,110,994	(8,027,642)	8,031,175
Share issuance costs	(2,212)	-	-	(2,212)
Shares issued for claims acquisition (Note 5)	33,750	-	-	33,750
Performance shares (Note 6)	78,750	-	-	78,750
Stock-based compensation	-	228,456	-	228,456
Net comprehensive loss for the period	-	-	(1,660,534)	(1,660,534)
Balance, December 31, 2011	14,058,111	2,339,450	(9,688,176)	6,709,385
Exercise of stock options	121,994	(51,994)	-	70,000
Bonus shares (Note 6)	70,000	-	-	70,000
Private placements, net of share issuance costs	1,687,235	225,811	-	1,913,046
Stock-based compensation	-	317,048	-	317,048
Net comprehensive loss for the period	-	-	(4,679,812)	(4,679,812)
Balance, September 30, 2012	**15,937,340**	**2,830,315**	**(14,367,988)**	**4,399,667**

AMERICAN VANADIUM CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)
IN CANADIAN DOLLARS

	Nine Months Ended September 30	Nine Months Ended August 31
	2012	2011
	$	$
		Note 2
CASH FLOWS FROM OPERATING ACTIVITIES		
Net comprehensive loss	**(4,679,812)**	(4,995,501)
Items not involving cash:		
Stock-based compensation	**317,048**	775,081
Salaries and benefits settled by issuance of shares	**70,000**	
Amortization	**15,066**	10,074
Unrealized foreign exchange loss	**6,565**	(3,090)
Changes in non-cash working capital balances:		
Accounts payable and accrued liabilities	**(108,542)**	187,538
Deferred engineering management expense and deposit	**(496,025)**	-
Income tax receivable	**165,669**	(165,138)
Amounts receivable	**86,785**	(66,138)
Prepaid expenses	**(7,026)**	(10,007)
Non-operating (income) expenses:		
Interest income	**(8,347)**	(11,767)
Net cash used in operating activities	**(4,638,619)**	(4,278,948)
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral property acquisition costs	**(193,569)**	(221,767)
Interest income	**8,347**	11,767
Purchase of equipment	**(17,060)**	(42,665)
Increase in reclamation deposit	**(62,980)**	(21,073)
Net cash (used in) provided by investing activities	**(265,262)**	(273,738)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares, net of issuance costs	**1,983,046**	8,359,754
Deferred financing costs	**-**	(117,845)
Net cash provided by financing activities	**1,983,046**	8,241,909
Change in cash for the period	**(2,920,835)**	3,689,223
Cash, beginning of period	**4,245,438**	3,136,748
Cash, end of period	**1,324,603**	6,825,971

1. NATURE OF OPERATIONS

American Vanadium Corp. (the "Company"), incorporated under the *Canada Business Corporations Act*, is engaged in the acquisition and exploration of mineral properties, with a strategic focus on vanadium properties in the State of Nevada. The Company is currently exploring its Gibellini property and has completed a feasibility study on the property. Pending, among other factors, successful supply arrangements, the availability of sufficient financing and regulatory approval, all of which are uncertain, the Company plans to develop and operate a mine in the future.

The Company's corporate head office is located at Suite #1028, 550 Burrard Street, Vancouver, British Columbia.

The Company's shares trade on the TSX-Venture Exchange (the "Exchange") under the symbol "AVC" and are quoted on the OTCQX under the symbol "AVCVF".

2. BASIS OF PRESENTATION AND CONTINUANCE OF OPERATIONS

Change in financial year

In 2011 the Company changed its financial year-end from February 28 to December 31 in order to align its financial reporting with its operational and budgeting cycles. The Company's most recent annual fiscal period was for the ten months ended December 31, 2011, while the current reporting period is for the nine months ended September 30, 2012 with a comparative period for the nine months ended August 31, 2011.

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"). These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). These condensed consolidated interim financial statements follow the same accounting policies and methods of application as – and should be read in conjunction with – the Company's audited annual consolidated financial statements for the ten months ended December 31, 2011.

These consolidated financial statements were authorized by the Board of Directors on November 23, 2012.

Going concern

These consolidated financial statements have been prepared on the assumption that the Company will continue on a going concern basis. The Company has generally incurred net losses and negative operating cash flows since its inception, and the ability of the Company to continue as a going concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing which would assure continuation of the Company's operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing.

There can be no assurance that the Company will be able to develop profitable operations or continue to raise additional funds, in which case the Company may be unable to meet its financial obligations. Should the Company be unable to generate funds from its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The Company's ability to raise additional funds is dependent on favourable conditions in equity and alternative investment markets, which are volatile and subject to significant uncertainty. The Company will continue to identify alternative sources of financing, but anticipates reliance on equity markets in the near term.

As at September 30, 2012, the Company maintained a working capital surplus of $2,475,104 and had $4,399,667 in shareholders' equity.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These condensed consolidated interim financial statements include the assets, liabilities, income and expenses of the Company and its wholly-owned U.S. subsidiary, American Vanadium US Inc. All intercompany transactions and balances have been eliminated on consolidation. Unless otherwise indicated, all amounts are reported in Canadian dollars, which is the functional currency of the Company and American Vanadium US Inc.

Basis of measurement

The balances in these consolidated financial statements have been measured on an historical cost basis, except for cash which is measured at fair value.

Application of new and revised International Financial Reporting Standards

i. IAS 12 Income Taxes ("IAS 12")

Effective January 1, 2012, the Company adopted an amendment to IAS 12 that removed certain subjectivity in measuring deferred tax assets and liabilities arising on investment property measured at fair value. There was no impact on the Corporation's financial statements as a result of the application of this amended standard.

ii. IFRS 7 Financial Instruments: Disclosures ("IFRS 7")

Effective January 1, 2012, the Company adopted an amendment to IFRS 7 that requires additional disclosure on the transfer of financial assets by the Company, including the possible effects of any residual risks that the Company retains. There was no impact on the Company's financial statements as a result of the application of this amended standard.

Significant accounting policies, estimates and judgments

Notwithstanding the application of new and revised International Financial Reporting Standards previously discussed, these condensed consolidated interim financial statements have been prepared using the same accounting policies and are subject to the same estimates, judgments and measurement uncertainties as those described in Note 3 of its audited consolidated financial statements as at and for the ten months ended December 31, 2011.

Recent accounting pronouncements issued but not yet adopted

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective for the year beginning January 1, 2012, and has determined that the following may have an impact on its consolidated financial statements:

i. IAS 1 Presentation of Financial Statements ("IAS 1")

IAS 1 was amended in June 2011 to provide guidance on the presentation of items contained in other comprehensive income ("OCI") and their classification within OCI. The amendments are to be applied for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. The amendments are not expected to have a significant impact on the Company's consolidated financial statements.

ii. IFRS 7 Financial Instruments: Disclosures ("IFRS 7")

IFRS 7 was amended in December 2011 to included improved disclosure for offsetting of offset financial assets and financial liabilities. The amendments are to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The amendments are not expected to have a significant impact on the Company's consolidated financial statements.

iii. IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 was issued in November 2009 and is intended to replace current IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The amendments are not expected to have a significant impact on the Company's consolidated financial statements.

iv. IFRS 10 Consolidated Financial Statements ("IFRS 10")

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation—Special Purpose Entities" and is effective, with retrospective application, for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

v. IFRS 11 Joint Arrangements ("IFRS 11")

IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes current IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Venturers" and is effective, with retrospective application, for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

vi. IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12")

IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 is effective, with retrospective application, for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

vii. IFRS 13 Fair Value Measurements ("IFRS 13")

IFRS 13 defines fair value and sets out a single IFRS framework for fair value measurements and disclosures. IFRS 13 applies to other IFRSs that require or permit measurements or disclosures based on fair values, except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013.

Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

viii. IAS 32 Financial Instruments – Presentation ("IAS 32")

In December 2011, certain amendments to IAS 32 were issued which address inconsistencies when applying the offsetting criteria outlined in this standard. These amendments clarify certain criteria required in order to offset financial assets and financial liabilities. These amendments are required to be adopted retrospectively for periods beginning January 1, 2014. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

4. EQUIPMENT

Changes to the Company's equipment balances are as follows:

	Field Equipment	Office Equipment	Vehicles	Total
	$	$	$	$
Cost				
Balance, December 31, 2011	28,680	12,918	41,118	82,716
Additions	12,976	4,084	-	17,060
Balance, September 30, 2012	**41,656**	**17,002**	**41,118**	**99,776**
Accumulated amortization				
Balance, December 31, 2011	22,640	4,255	6,366	33,261
Additions	4,996	3,618	6,452	15,066
Balance, September 30, 2012	**27,636**	**7,873**	**12,818**	**48,327**
Carrying value				
December 31, 2011	6,040	8,663	34,752	49,455
September 30, 2012	**14,020**	**9,129**	**28,300**	**51,449**

5. MINERAL PROPERTIES

Acquisition costs

As at September 30, 2012 and prior periods, the carrying values of mineral properties were comprised solely of capitalized acquisition costs for mineral rights. Changes to these carrying values are as follows:

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
As at December 31, 2011	1,487,089	39,683	9,171	1,535,943
Additions	193,569	-	-	193,569
As at September 30, 2012	**1,680,658**	**39,683**	**9,171**	**1,729,512**

The Company has capitalized, rather than expensed, property acquisition costs on the basis that holding title to the related properties allows the Company to explore and develop these properties in the future. Acquiring and maintaining title to mineral properties involves certain inherent risks due to difficulties in determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing.

Exploration and evaluation expenses

During the nine months ended September 30, 2012, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
Environmental permitting	576,842	-	-	576,842
Metallurgy	270,506	-	-	270,506
General	272,383	-	-	272,383
Engineering, procurement and construction management	824,419	-	-	824,419
Geotechnical	177,620	-	-	177,620
Engineering	67,316	-	-	67,316
Property maintenance	74,427	19,139	2,692	96,258
Exploration	6,549			6,549
Feasibility	6,197	-	-	6,197
Power	4,358	-	-	4,358
Drilling and trenching	212,579			212,579
Microgrid feasibility	63,131	-	-	63,131
Water	597	-	-	597
	2,556,924	**19,139**	**2,692**	**2,578,755**

During the nine months ended August 31, 2011, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
Feasibility	1,448,850	-	-	1,448,850
Water	412,997	-	-	412,997
General	415,123	10,107	-	425,230
Environmental permitting	378,432	308	-	378,740
Metallurgy	241,906	2,882	-	244,788
Engineering	48,502	290	-	48,792
Drilling and trenching	35,658	-	-	35,658
Property maintenance	69,011	17,861	2,666	89,538
Exploration	27,485	1,707	-	29,192
Geotechnical	2,186	-	-	2,186
Power	17,555	-	-	17,555
	3,097,705	**33,155**	**2,666**	**3,133,526**

Summary of properties

a) Gibellini Property, Nevada, U.S.

During the year ended February 28, 2007, the Company entered into a Mineral Lease Agreement to acquire 40 unpatented lode mining claims, paying US$60,000 upon the execution of the agreement. Pursuant to the terms of the agreement, the Company is required to pay a production royalty of 2.5% of the net smelter returns ("NSR") of all mineral substances produced from the claims, to a maximum of US$3,000,000, at which point the production royalty decreases to 2.0%. The Company is also required to pay US$30,000, quarterly, and such payments are credited against any future production royalties payable. As of September 30, 2012, the Company has paid a total of US$600,000 for these advance royalty payments, including US$90,000 paid during the nine months ended September 30, 2012.

During the year ended February 28, 2007, the Company entered into a Mineral Lease Agreement to acquire 12 unpatented lode mining claims, paying US$9,000 upon the execution of the agreement. Pursuant to the terms of the agreement the Company is required to pay an initial production royalty payment of US$30,000 within 60 days of production from the claims and a production royalty of 3.0% of NSR of all mineral substances produced from the claims. Also, the Company must pay an escalating series of annual payments, which will be credited against any future production royalties payable. As of September 30, 2012, the Company has paid a total of US$95,000 for these advance royalty payments; remaining payments are US$24,000, annually. Further, the Company has the option to purchase these claims for a total purchase price of US$1,000,000.

During the ten months ended December 31, 2011, the Company acquired 17 unpatented lode mining claims for US$50,000 – in addition to US$70,000 in previous payments – and the issuance of 25,000 of its common shares valued at $33,750.

During the ten months ended December 31, 2011, the Company acquired an additional 185 unpatented lode claims and seven placer claims through the staking process.

During the ten months ended December 31, 2011, the Company obtained various rights to water required for production from the Gibellini Property. Consideration for these rights included a cash payment of US$295,000 and 50,000 common shares in the Company valued at $67,500. The Company is required to make annual rental payments of US$225,000, which may be adjusted for the Consumer Price Index. During the nine months ended September 30, 2012, the Company paid US$103,000 of such rental payments.

b) Del Rio Property, Nevada, U.S.

During the year ended February 28, 2011, the Company acquired 120 claims through the staking process. No additional claims have been subsequently acquired.

c) Hot Creek Property, Nevada, U.S.

During the year ended February 28, 2011, the Company acquired 18 claims through the staking process. No additional claims have been subsequently acquired.

Engineering, procurement and construction management

During the ten months ended December 31, 2011, the Company entered into an agreement with an independent contractor who will manage various phases of the development of a mine on the Gibellini Property. These phases include basic and detailed engineering, asset and service procurement, and mine construction. As at September 30, 2012, the contractor has commenced the basic engineering phase.

On the commencement of the basic engineering phase, the Company paid a US$559,936 deposit, and 17 monthly installments totalling US$2,799,679 are required throughout the phase. Installments and the deposit have been recorded on the consolidated balance sheet as a deferred engineering management expense and deposit when paid or accrued, which is then recognized as an expense on a percentage-of-completion basis over the duration of the phase.

Changes to the deferred engineering management expense and deposit balance are as follows:

	Amount
	$
Balance, December 31, 2011	1,079,390
Monthly installments paid or accrued	1,307,470
Expense recognized for percentage-of-completion achievement	(824,419)
Foreign exchange gain	12,974
Balance, September 30, 2012	**1,575,415**

6. SHAREHOLDERS' EQUITY

Share capital

Authorized

Unlimited number of common voting shares with no par value.

Issued and outstanding

	Number of Common Shares	**Amount**
		$
Outstanding, March 1, 2011	20,267,814	6,349,922
Issued through private placements, net of share issuance costs	5,771,917	6,919,555
Issued on exercise of warrants	1,166,666	466,666
Issued on exercise of stock options	87,000	141,968
Issued for water rights (Note 5)	50,000	67,500
Issued for mineral claims (Note 5)	25,000	33,750
Issued on achievement of performance targets	75,000	78,750
Outstanding, December 31, 2011	27,443,397	14,058,111
Issued through private placements, net of share issuance costs	3,225,854	1,687,235
Issued on exercise of stock options	200,000	121,994
Issued on employment signing bonus	100,000	70,000
Outstanding, September 30, 2012	**30,969,251**	**15,937,340**

Private placements

On March 22, 2011, the Company completed a brokered private placement of 2,770,250 common share units at a price of $1.35 per unit for gross proceeds of $3,739,838. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one additional common share at a price of $1.95 until September 22, 2012. The full value of these units is attributed to the value of the common shares. An additional 193,918 agent's warrants were issued as part of this private placement with a fair value of $109,668, but these warrants expired on March 22, 2012. Transaction costs for the private placement, which include the fair value of agent's warrants, cash commissions, and legal and other fees, totalled $577,641.

On July 15, 2011, the Company completed a non-brokered private placement of 2,334,667 common share units at a price of $1.50 per unit for gross proceeds of $3,502,001. Each unit consists of one common share and one-quarter of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $2.00 until January 15, 2013. The value of these units has been bifurcated between common shares at a value of $1.34 per share and warrants at a value of $0.16 per one-quarter warrant. An additional 23,940 finder's warrants were issued as part of this private placement with a fair value of $8,232. Each finder's warrant entitles the holder to purchase one common share at a price of $2.00 per common share until July 15, 2012. Transaction costs for the private placement, which include the fair value of finder's warrants, cash commissions, and legal and other fees, totalled $211,516.

On August 31, 2011, the Company completed a non-brokered private placement of 667,000 common share units at a price of $1.50 per unit for gross proceeds of $1,000,500. Each unit consists of one common share and one-quarter of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $2.00 until February 28, 2013. The value of these units has been bifurcated between common shares at a value of $1.26 per share and warrants at a value of $0.24 per one-quarter warrant.

On September 22, 2012, the Company completed a non-brokered private placement of 3,225,854 common share units at a price of $0.62 per unit for gross proceeds of $2,000,030. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $1.00 until March 13, 2014. The value of these units has been bifurcated between common shares at a value of $0.55 per share and warrants at a value of $0.07 per one-half warrant. Transaction costs for the private placement, which include cash commissions, and legal and other fees, totalled $86,985.

Performance and bonus shares

During the ten months ended December 31, 2011, the Company entered into an arrangement whereby up to 500,000 of its common shares could be issued to certain executives in four tranches to an officer of the Company upon meeting various milestones for the development of the Gibellini property. During the ten months ended December 31, 2011, the first milestone was met and 75,000 of these shares valued at $78,750 were issued.

During the nine months ended September 30, 2012, the Company entered into arrangements whereby up to 3,000,000 of its common shares could be issued to certain officers and directors, or to companies related to them. These shares are issuable in tranches upon completion of various milestones related to the development of the Gibellini property or other strategic achievements. During the nine months ended September 30, 2012, 100,000 of these shares valued at $70,000 were issued as a signing bonus to a new officer of the Company.

The performance conditions for the issuance of the remaining 3,325,000 performance and bonus shares are discussed in Note 12.

Warrants

Changes to the balance of warrants outstanding are as follows:

	Number of Warrants	**Weighted Average Exercise Price**	**Weighted Average Fair Value**
		$	**$**
Outstanding, March 1, 2011	1,166,666	0.40	-
Warrants exercised	(1,166,666)	0.40	-
Warrants issued as part of common share units	2,135,542	1.97	0.25
Warrants issued as agent's and finder's fees	217,858	1.42	0.54
Outstanding, December 31, 2011	2,353,400	1.92	0.28
Warrants issued as part of common share units	1,612,927	1.00	0.14
Warrants expired	(1,602,983)	1.88	0.07
Outstanding, September 30, 2012	2,363,344	$1.32	0.32

The fair value of warrants included in common share units is determined as the excess in the value of the unit over the market price of the Company's common shares on the date the units are issued.

The fair value of agent's and finder's warrants issued on a stand-alone basis is determined using the Black-Scholes option pricing model.

The following warrants were outstanding and exercisable as at September 30, 2012:

Expiry date	Exercise Price	Number of Warrants Outstanding and Exercisable
	$	
January 15, 2013	2.00	583,667
February 28, 2013	2.00	166,750
March 12, 2014	1.00	1,612,927
		2,363,344

Stock options

The Company adopted an incentive stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the requirements of the Exchange, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to five years from the date of grant. Vesting terms are determined by the Board of Directors at the time of grant.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Fair Value
		$	$
Outstanding, March 1, 2011	1,837,500	0.69	0.51
Options granted	575,000	1.47	1.09
Options exercised	(87,000)	0.96	0.67
Outstanding, December 31, 2011	2,325,500	0.88	0.64
Options granted	665,000	0.73	0.37
Options exercised	(200,000)	0.35	0.26
Options cancelled or forfeited	(235,000)	1.29	0.94
Outstanding, September 30, 2012	**2,555,500**	**0.84**	**0.58**

The fair values of the stock options granted during the nine months ended September 30, 2012 and August 31, 2011 have been estimated using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for these options are as follows:

	Nine Months Ended September 30, 2012	Nine Months Ended August 31, 2011
Risk-free interest rate	**1.09 %**	1.88 %
Annual dividends	**-**	-
Expected stock price volatility	**85.79%**	130.78%
Expected forfeiture rate	**20.31%**	28.49%
Expected life	**2.55 years**	2.89 years

The following incentive stock options were outstanding and exercisable at September 30, 2012:

Expiry date	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
	$		
February 12, 2013	1.30	138,000	138,000
January 21, 2015	0.35	687,500	687,500
April 1, 2015	0.75	40,000	40,000
August 18, 2015	0.75	50,000	50,000
November 2, 2015	0.70	275,000	275,000
December 13, 2015	1.00	60,000	60,000
December 29, 2015	1.05	15,000	15,000
December 31, 2015	1.14	50,000	50,000
February 7, 2016	1.56	100,000	100,000
March 7, 2016	1.50	25,000	25,000
March 23, 2016	1.53	300,000	300,000
July 19, 2016	1.34	100,000	100,000
August 2, 2016	1.25	50,000	50,000
February 6, 2017	0.77	65,000	52,500
April 3, 2017	0.70	100,000	50,000
April 12, 2017	0.74	50,000	25,000
May 31, 2017	0.70	150,000	75,000
June 15, 2017	0.74	300,000	300,000
		2,555,500	**2,393,000**

7. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2012, a $58,500 (nine months ended August 31, 2011 - $36,000) expense was recorded for office facilities, corporate and administrative services provided by a company jointly controlled by a director of the Company, of which $8,718 (December 31, 2011 - $12,290) is included in accounts payable and accrued liabilities.

During the nine months ended September 30, 2012, a $135,000 expense (nine months ended August 31, 2011 - $70,000) was recorded for consulting services provided by a company jointly controlled by a director of the Company. Included in accounts payable and accrued liabilities at September 30, 2012 is $5,419 (December 31, 2011 - $43,448) payable to this related company.

Included in prepaid expenses is $10,000 (December 31, 2011 - $10,000) advanced to the Chief Executive Officer of the Company for corporate expenses to be incurred on the Company’s behalf. Included in accounts payable and accrued liabilities is a total of $9,560 (December 31, 2011 - $3,496) owing to this officer.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

8. SEGMENTED INFORMATION

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. Geographical information is as follows:

	Net Comprehensive Loss for the Nine Months Ended	
	September 30 2012	August 31 2011
	$	$
Canada	**1,759,629**	2,025,514
United States	**2,920,183**	2,969,987
Total net comprehensive loss	**4,679,812**	4,995,501

		Total Assets as at
	September 30 2012	December 31 2011
	$	$
Canada	**654,528**	3,507,763
United States	**4,421,480**	3,986,505
Total assets	**5,076,008**	7,494,268

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at September 30, 2012, the Company's financial instruments comprise cash, amounts receivable, income tax receivable, reclamation deposit and accounts payable and accrued liabilities. With the exception of cash, all financial instruments held by the Company are measured at amortized cost. The fair values of these financial instruments approximate their carrying value due to their short-term maturities.

Financial instruments measured at fair value on the balance sheet as at September 30, 2012 are summarized in levels of fair value hierarchy, described in Note 3 of the Company's audited financial statements as at and for the ten months ended December 31, 2011, as follows:

	Level 1	**Level 2**	**Level 3**
	$	**$**	**$**
Cash	1,324,603	**-**	**-**

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

Currency risk

A portion of the Company's expenses are incurred in United States dollars and financial instrument balances are held in this currency. A significant change in the currency exchange rates between the Canadian dollar relative to the United States dollar could have a negative effect on the Company's results of operations, financial position or cash flows.

The Company has not hedged its exposure to currency fluctuations and, as at September 30, 2012, the Company held $858,616 (December 31, 2011 - $1,638,060) in United States dollars. A prolonged $0.10 increase (decrease) in the value of the Canadian dollar compared with the United States dollar would result in a $85,862 foreign exchange loss (gain) based on United States dollar holdings as at September 30, 2012.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset backed commercial paper.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company believes that these sources will be sufficient to cover its short-term administrative costs, but that further funding will be required for design, engineering and development activities at its Gibellini property as well as to meet long-term administrative costs.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash is currently held in short-term interest bearing accounts which pay relatively low rates of interest, the Company considers the interest rate risk to be limited.

10. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of resource properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and development and to pay for administrative costs, the Company will spend its existing working capital and will need to raise additional funds to continue its operations.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the nine months ended September 30, 2012. The Company is not subject to externally imposed capital requirements.

11. LOSS PER SHARE

The numerators and denominators of basic and diluted loss per share for the three months and nine months ended September 30, 2012 and three months and nine months ended August 31, 2011 are as follows:

	Three Months Ended		**Nine Months Ended**	
	September 30 2012	August 31 2011	**September 30 2012**	August 31 2011
Net loss (numerator)	**$2,015,548**	$1,297,666	**$4,679,812**	$4,995,501
Basic and diluted weighted average number of common shares outstanding (denominator)	**28,374,542**	24,477,006	**27,818,453**	22,343,270
Basic and diluted loss per share	**$0.07**	$0.05	**$0.17**	$0.22

The Company incurred net losses for all periods reported, so no dilutive impact of in-the-money stock options and warrants has been included in the calculation of diluted weighted average number of common shares outstanding.

12. COMMITMENTS AND CONTINGENCIES

The Company is contractually or constructively committed to the following expenditures:

Nature of payment	**Remainder of 2012**	**2013**	**2014**	**2015**	**2016**
Engineering management[1]	US$453,282	US$453,282	-	-	-
Mineral rights[2]	US$54,000	US$144,000	US$144,000	US$144,000	US$144,000
Water rights[3]	-	US$225,000	US$225,000	US$225,000	US$225,000
Office lease	Cdn$27,234	-	-	-	-

1. As described in Note 5, the Company has commenced a basic engineering phase under a mine engineering, procurement and construction management agreement. The Company is not committed to undertaking further phases under the agreement.

2. As described in Note 5, the Company is making NSR prepayments in order to acquire and maintain mineral rights to its properties. To maintain certain of its properties in good standing, the Company is required to continue making these payments.

3. As described in Note 5, the Company is making annual rental payments to maintain water rights for its properties.

As discussed in Note 6, up to 3,325,000 of the Company's shares are issuable upon meeting various milestones for the development of the Gibellini property and for achieving certain strategic objectives. Although the timing and number of shares that will be issued under this arrangement is unknown, and certain specific milestones are at the discretion of the Company's Board of Directors, the issuance of these shares is contingent on the following events:

Contingent Event	**Number of Shares Issuable[1]**
Project permitting for the Gibellini property	250,000
Design and construction of mine leach pad on the Gibellini property	275,000
Obtaining project financing for the Gibellini property	Up to 1,300,000
Economic production of the Gibellini property	450,000
Various strategic milestones towards vanadium flow batteries	Up to 1,050,000
Various milestones towards a production off-take agreement	Up to 1,050,000

1. The number of shares issuable under certain milestones is not fixed, but the aggregate number of shares issuable is limited to 3,325,000. Additionally, the issuance of certain bonus and performance shares is contingent on the Company's share price meeting various targets.

As the events that would result in the issuance of these shares have not occurred, no provision for their payment has been recorded.